KAI !GARIB LOCAL MUNICIPALITY

(Demarcation code NC082)

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

ASB	Accounting Standards Board
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
CPI	Consumer Price Index
DORA	Division of Revenue Act
DWS	Department of Water Affairs and Sanitation
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognized Accounting Practice
GLCCM	General Landfill Closure Costing Model
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
INEP	Intergrated National Electrification Programme
LG SETA	Local Government Sector Education Training Programme
LSA	Long Service Awards
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MLCCM	Municipal Landfill Closure Costing Model
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
PEMA	Post-employment Medical Aid Subsidy Liability
SA GAAP	South African Statements of Generally Accepted Accounting Practice
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WCA	Workers Compensation Administration

Relevant Legislation

Constitution of the Republic of South Africa (Act no 108 of 1996)
Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act
The Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no 117 of 1998)
Municipal Systems Act (Act no 32 of 2000)
Water Services Act (Act no 108 of 1997)
Housing Act (Act no 107 of 1997)
Municipal Property Rates Act (Act no 6 of 2004)
Electricity Act (Act no 41 of 1987)
Skills Development Levies Act (Act no 9 of 1999)
Employment Equity Act (Act no 55 of 1998)
Unemployment Insurance Act (Act no 30 of 1966)
Basic Conditions of Employment Act (Act no 75 of 1997)

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998)
Nature of business and principal activities	Kai !Garib Local Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996)
Vision statement	Creating an economically viable and fully developed Municipality, which enhances the standard of living of all the inhabitants/community of Kai !Garib through good governance, excellent service delivery and sustainable development
Mission statement	Provision of transparent, accountable and sustainable service delivery
Demarcation code	NC082
Grading of local authority	Low capacity municipality
Accounting Officer	Mr. I.G.A. de Waal (Acting)
Chief Finance Officer (CFO)	Mr. G. Matthews (Acting)
Registered office	164 11th Avenue Kakamas 8870
Postal address	Private Bag X 6 Kakamas 8870
Bankers	ABSA Bank Limited Standard Bank Limited
Auditors	External: Auditor General of South Africa Internal: Internal Audit Unit
Attorneys	Wessels & Smith Attorneys Inc
Level of assurance	These annual financial statements will be audited in compliance with the applicable requirements of the Municipal Finance Management Act, No. 56 of 2003
Preparer	The annual financial statements were internally compiled by Wim Scheepers, the municipality's Budget and Reporting Manager
Telephone number	(054) 431 6300
Fax number	(054) 431 6301
Email address	admin@kaigarib.gov.za
Website	www.kaigarib.gov.za

Members of the Municipal Council

Mayor	Cllr. M.M. Louw	
Speaker	Cllr. D.W. Fienies	
Ward councillors	Cllr. D. Jaar	ANC
	Cllr. B.B. Kordom	ANC
	Cllr. B.M. Bock	ANC
	Cllr. P.A. Thomas	ANC
	Cllr. M.A. Papier	ANC
	Cllr. V.W. Sacco	ANC
	Cllr. N.J. Snyers	ANC
	Cllr. D.W. Fienies	ANC
	Cllr. E.E. Frits	ANC
	Cllr. W.D. Klim	ANC
Proportional members	Cllr. C. Markgraaf	DA
	Cllr. J.M. de Klerk	DA
	Cllr. C.F.P. Bezuidenhoudt	DA
	Cllr. C. Kruger	DA
	Cllr. M.Y. Basson	DA
	Cllr. E.K. Strauss	DF
	Cllr. R. van Rooyen	DF
	Cllr. M.O. Marshall	EFF

Council committees

Executive committee

Chairperson:	Cllr. M.M. Louw
Members:	Cllr. W.D. Klim
	Cllr. C. Markgraaf

Socio-economic development committee

Chairperson:	Cllr. D.R. Jaar
Members:	Cllr. B.B. Kordom
	Cllr. M.A. Papier
	Cllr. M.O. Marshall
	Cllr. C. Kruger

Institutional development committee

Chairperson:	Cllr. V.W.W. Sacco
Members:	Cllr. B.M. Bock
	Cllr. N.J. Snyers
	Cllr. J.M. de Klerk
	Cllr. E.K. Strauss

Infrastructure development committee

Chairperson:	Cllr. B.B. Kordom
Members:	Cllr. E.E. Fritz
	Cllr. P.A. Thomas
	Cllr. R. van Rooyen
	Cllr. C.F.P. Bezuidenhoudt

Municipal public account committee:

Chairperson:	Cllr. B.M. Bock
Members:	Cllr. V.W.W. Sacco
	Cllr. D.R. Jaar
	Cllr. E.K. Strauss
	Cllr. M.Y. Basson

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Accounting Officer's Responsibilities and Approval

The Accounting Officer are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continue to procure funding for the ongoing operations for the municipality and that the municipality is very reliant on grants from National Treasury. Funding will be received from National Treasury as long as the municipality comply with all legislation requirements. The collection of outstanding consumer debtor accounts and effective service delivery is also a priority of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements, and is given unrestricted access to all financial records and related data. The annual financial statements has been audited by the municipality's external auditors and their report will be presented after the annual auditing process.

The annual financial statements set out on pages 7 to 112, which have been prepared on the going concern basis, were approved by the Accounting Officer and were signed by him.

Mr. I.G.A. de Waal (Acting)
Municipal Manager (Accounting Officer)
Kai !Garib Local Municipality
14 September 2018

Accounting Officer's Report

The Accounting Officer submit their report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

Kai !Garib Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996),and operates principally in the Northern Cape province of South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 64,234,522 (2017: deficit R 82,156,719).

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had accumulated surplus of R 432,591,727 and that the municipality's total assets exceed its liabilities by R 432,591,727.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The Accounting Officer are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officers' interest in contracts

The account officer has no interest in contracts awarded, either direct or indirect.

5. Accounting policies

The annual financial statements prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework , have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

6. Accounting Officer

The Accounting Officer of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mr. I.G.A. de Waal (Acting)	South Africa	Appointed 01 February 2018
Mr. J.G. Lategan (Acting)	South Africa	Resigned 31 January 2018

Accounting Officer's Report

7. Corporate governance

General

The Accounting Officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Accounting Officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King III Report on Corporate Governance for South Africa of September 2009. The Accounting Officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit committee

The audit committee was established with effect from 1 July 2014. The chairperson of the audit committee is Mr. H.C. Ogu, who is an independent audit committee member. Other independent members of the audit committee are, Me. M. Venter and Me. A. Viljoen.

Internal audit

The municipality established an internal audit unit on 1 April 2014. Since the establishment of the internal audit unit ZF Mgcawu District Municipality assists the municipality with their internal audit functions as required by legislation.

8. Bankers

The municipality's primary bank accounts are with ABSA Bank Limited and Standard Bank Limited and will continue to bank with them in the new financial year.

9. Auditors

The following auditors will continue in office for the following financial period:

- External: Auditor General of South Africa
- Internal: Internal Audit Unit

10. Public Private Partnership

The municipality did not enter into any Public Private Partnership for the 2017/2018 financial year, nor does it have any existing PPP's

11. Non compliance with applicable legislation

Details of the transactions where the municipality deviated from the supply chain management regulations relating to the its procurement processes and expenditure during the 2017/18 financial year is set out in note 57

Accounting Officer's Report

12. Municipal jurisdiction

Kai !Garib Municipality have the following surrounding towns under its jurisdiction:

- Kakamas
- Keimoes
- Kenhardt
- Alheit
- Augrabies
- Blaauwskop
- Bloemsmond
- Cillie
- Currieskamp
- Lennertsville
- Lutzburg
- Mactaggertscamp
- Marchand
- Riemvasmaak
- Soverby
- Vredesvallei
- Eksteenskuil

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Certification of Remuneration of Councillors

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution and according to the Government Gazette 41553 dated 15 December 2017. This read with the Remuneration of Public Officer Bearers Act, Circular 14/2015 dated 27 March 2015 of SALGA, the Minister of Corporative Governance and Traditional Affair's determination in accordance with this Act and the approval letter received from the Minister of Corporative Governance, Human Settlements and Traditional Affair's on 3 April 2018.

Mr. I.G.A. de Waal (Acting)
Municipal Manager (Accounting Officer)
Kai !Garib Local Municipality
14 September 2018

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Chief Financial Officer's Report

1. Introduction

It gives me great pleasure to present the financial position of Kai !Garib Local Municipality as at 30 June 2018 and the results of its operations and cash flows for the year ended 30 June 2018.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework are set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position as at 30 June 2018 indicates a decrease in Net Assets, an increase in Current assets, Current liabilities and Non-current liabilities, and an decrease in Non-current assets

The decrease in Net Assets is ascribed primarily to the decrease in Accumulated surplus as a result of the deficit generated in the Statement of Financial Performance.

The increase in current assets is primarily as a result of the increase in the amount VAT receivable. The decrease in Non-current assets is primarily as a result of the depreciation and impairment of the municipality's old infrastructure assets during the current financial year, thus resulted in the decrease of Property, plant and equipment.

The increase in current liabilities is primarily as a result of the increase in Payables from exchange transactions. The increase in non-current liabilities is primarily as a result of the increase in Provisions and Employee benefit obligations.

2. Key financial indicators

The following percentages of expenditure categories are self-explanatory, and indicates how the funds of the municipality is applied.

	Notes	2018	2017
Surplus / (Deficit) before appropriations		(64,234,522)	(97,691,399)
Surplus / (Deficit) at the end of the Year		432,591,727	496,826,249
Expenditure categories as a percentage of total expenses:			
Bulk purchases	31	17.95 %	17.59 %
Contracted services	32	5.61 %	4.03 %
Debt Impairment	33	4.40 %	7.12 %
Depreciation and amortisation	34	10.28 %	12.06 %
Employee related costs	35	34.64 %	31.34 %
Finance costs	36	10.57 %	9.88 %
General expenses	37	8.64 %	8.80 %
Grant expenses	38	3.96 %	5.41 %
Impairment losses	40	0.43 %	(0.46)%
Remuneration of councillors	40	2.18 %	1.95 %
Repairs and maintenance	41	1.32 %	1.36 %
Current ratio		0.19:1	0.23:1
Acid Test ratio		0.19:1	0.21:1

Chief Financial Officer's Report

3. Operating results

Details of the operating results per segmental classification of expenditure are included in Appendix "D".

4. Reconciliation of Budget vs Actuals

4.1 Operational budget

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Statement of Comparison of Budget and Actual Amounts.

4.2. Capital budget

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with an explanation of significant variances of more than 5% from budget, are included in Appendix "E (4)".

5. Current assets

The municipality's current assets as on 30 June 2018 amount to R 58,828,569 (2017:R 56,243,637) and is made up as follows:

	Notes	2018	2017
Cash and cash equivalents	3	463,661	918,801
Inventories	4	765,256	4,959,485
Other financial assets	5	1,315,517	1,282,423
Receivables from exchange transactions	6&8	29,122,944	26,980,241
Receivables from non-exchange transactions	7&8	18,081,639	15,302,388
VAT receivable	9	9,079,552	6,800,299
Total current assets		**58,828,569**	**56,243,637**

The increase in the municipality's current assets is primarily as a result of the increase in the VAT receivable amount.

Current assets are those assets of the municipality that is due and receivable in the short-term (less than 12 months).

Refer to the indicated notes for more detail.

6. Non-current assets

The municipality's non-current assets as on 30 June 2018 amount to R 772,556,207 (2017:R 767,101,080) and is made up as follows:

	Notes	2018	2017
Other financial assets	5	1,658,375	933,956
Intangible assets	10	256,774	376,470
Investment property	11	1,524,000	1,505,000
Property, plant and equipment	12	769,117,058	764,285,654
Total non-current assets		**772,556,207**	**767,101,080**

The decrease in Non-current assets is primarily as a result of depreciation and impairments of Property, plant and equipment

Refer to the indicated notes, Appendix B and C for more detail.

7. Intangible assets

The municipality's Intangible assets as on 30 June 2018 amount to R 256,774 (2017:R 376,470).

These are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipalityy in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 8 and Appendix "B" for more detail.

Chief Financial Officer's Report

8. Property, plant and equipment

The municipality's Property, plant and equipment assets as on 30 June 2018 amount to R 769,117,058 (2017:R 764,285,654).

Refer to Note 8 and Appendix "B, C and E (4)" for more detail.

9. Current liabilities

The municipality's current liabilities as on 30 June 2018 amount to R 306,357,278 (2017:R 246,747,945) and is made up as follows:

	Notes	2018	2017
Bank overdraft	3	208,581	-
Consumer deposits	14	1,772,549	1,734,907
Employee benefit obligation	15	614,796	614,796
Finance lease obligation	16	2,643,456	1,184,127
Other financial liabilities	17	8,827,274	6,905,550
Payables from exchange transactions	18	279,899,113	232,516,325
Provisions	19	4,749,658	3,792,240
Unspent conditional grants and receipts	20	7,641,851	-
Total current liabilities		**306,357,278**	**246,747,945**

The increase in the municipality's current liabilities is mainly due to the increase in payables from exchange transactions.

Current liabilities are those liabilities of the municipality that is due and payable in the short-term (less than 12 months).

Refer to the indicated notes for more detail.

10. Non-current liabilities

The municipality's non-current liabilities as on 30 June 2018 amount to R 92,435,771 (2017:R 79,770,521) and is made up as follows:

	Notes	2018	2017
Employee benefit obligation	15	17,802,897	17,802,897
Finance lease obligation	16	8,854,802	4,945,241
Other financial liabilities	17	963,702	2,050,523
Provisions	19	64,814,370	54,971,860
Total non-current liabilities		**92,435,771**	**79,770,521**

The increase in the municipality's current liabilities is mainly due to the increase in the provision of the rehabilitation closure cost of the municipality's landfill sites and the post employment medical aid liability.

Non-current liabilities are those liabilities of the municipality that is due and payable in the long-term (after 12 months).

Refer to the indicated notes for more detail.

11. Accumulated surplus

The municipality's accumulated surplus as on 30 June 2018 amount to R 432,591,727 (2017:R 496,826,251) and is made up as follows:

	2018	2017
Accumulated surplus	432,591,727	496,826,251
Total net assets	**432,591,727**	**496,826,251**

Refer to the Statement of Changes in Net Assets for more detail.

Chief Financial Officer's Report

12. Comparitive figures

Some of the comparitive figures as reported in the previous year's audited annual financial statements have been restated in this year's annual financial statements.

Full details of any restatements made to prior year audited figures are disclosed in and Note 55

13. Prior period errors

Where any prior period error in any calculations or valuations of an amount as disclosed in the prior year's audited annual financial statements were detected, the disclosed amount have been rectified accordingly and restated in the current year's annual financial statements.

Full details of any restatements made to prior year audited figures are disclosed in54 and Note 55

14. Contingent liabilities

Full details of all contingent liabilities, if any, are disclosed in Note 52.

15. Events after the reporting date

Full details of all known events, if any, after the reporting date are disclosed in Note 47.

16. Going concern assessment

Full details of management's going concern assessment are disclosed in Note 46.

17. Expression of appreciation

I am gratefull to the Mayor, members of the Executive Committee, Councillors, MPAC, the Municipal Manager, and Heads of Departments for the support extended during the finacial year. A special word of thanks to all staff in the Budget and Treasury Office, for without their assisstence compiling these annual financial statements would not have been possible.

Mr. G. Matthews(Acting)
Chief Finance Officer (CFO)
Kai !Garib Local Municipality
14 September 2018

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Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2018. The Audit Committee was operational throughout the year and had several engagements with management on crucial financial management, internal control, risk management and governance issues during the year. The Audit Committee acknowledges the attendance and participation of senior management including the Accounting Officer in the Audit Committee meetings.

Audit committee members and attendance

In terms section 166(4)(b) of MFMA, an audit committee must meet at least quarterly. In addition, Treasury Regulations, section 3.1.16, provides that an audit committee must meet at least annually with the Auditor-General. The audit committee met more than four times during the year in compliance with the MFMA and also met with the Auditor General. In addition, the audit committee reported to the Council once during the year.

The names of the members of the audit committee as well as the number of meetings attended by the members are tabulated below:

Name of member	Number of meetings attended
Mr. Hyacinth Chineme Ogu (Chairperson)	5 out of 5
Mr. Nico Erasmus (Resigned 31 December 2017)	2 out of 5
Me. Adele Delport Viljoen	5 out of 5
Me. M. Venter (Appointed 12 June 2018)	1 out of 5

Audit committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from Section 166(2) of the Municipal Finance Management Act and Treasury Regulation 3.1. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

Our review of the findings of the Internal Audit work, which was based on the risk assessments conducted in the municipality revealed certain weaknesses, which were then raised with the Management.

The following internal audit assignments were completed during the year under review:

- Office of the Municipal Manager – Risk Management, Fraud prevention, Performance Management.
- Directorate Planning and Development – IDP, Electricity, Water
- Directorate Financial Services – Annual financial statements, Expenditure, Revenue, Budget & Treasury Office, Supply chain management, Asset management;
- Directorate Corporate Services – Human Resource Development, Human Resource Management, Payroll, Labour relations, Libraries;
- Follow -up on implementation Audit Committee recommendations, AGSA recommendations and Internal Audit Recommendations.
- Ad-hoc assignment by the Audit Committee on Acting Allowance and Travel Claims.

The following were areas of concern:

- Lack of cooperation by some Directorates/Units in terms of provision of information and documents required for the audit and response to internal audit queries resulting in serious limitation of scope in the performance of the internal audit function during the year. This matter was escalated to the Mayor and Council in the previous year but did not significantly improve during the year.
- The lukewarm attitude of management in ensuring that both Audit Committee recommendations and Internal Audit recommendations are implemented.
- The lack of stable leadership in the municipality as well as the Directorate of Finance has resulted in deterioration in the overall control and governance environment. This matter has been reported to Council for urgent action.

MFMA In-year-monitoring reports

The municipality has been reporting monthly and quarterly to the Council and Treasury as is required by the MFMA albeit of low standards and credibility

Evaluation of annual financial statements

- The Audit Committee advised management to prepare and implement a financial statements compilation readiness plan, which was accepted by management. However, management failed to adhere to the plan resulting in the inability of the municipality to finalise the compilation of the financial statements by 31 August 2018. The Audit Committee met with management on 28 August 2018 and after reviewing the status of the compilation of the financial statements, noted significant outstanding matters and then advised management to seek for extension of two weeks from the AGSA for the submission of the financial statements.
- The draft financial statements have been reviewed by the Audit Committee and the findings from the review have been discussed with management. The Audit Committee has recommended to management to ensure that all the findings on the review of the financial statements are addressed so as to improve the overall quality of the financial statements prior to submission to the AGSA.
- The Audit Committee will review the audited financial statements and discus the statements with the Auditor-General as well as the Accounting Officer in December 2017
- The Audit Committee will review the Auditor-General's management report and management response thereto in December 2017
- The Audit Committee will review the accounting policies as well as changes in accounting policies and practices as part of the review of the audited financial statements.
- The Audit Committee reviewed the municipality's compliance with legal and regulatory provisions during the quarterly Audit Committee meetings and management has been directed to implement remedial measures where instances of non-compliance were noted.
- The Audit Committee has reviewed the draft performance report and have discussed the findings with management. The Audit Committee will review the final performance report and information on predetermined objectives to be included in the annual report as part of the review of the audited financial statements and report of the Auditor General in November 2017.
- The Audit Committee will review any significant adjustments resulting from the audit as part of the review of the audited financial statements
- The Audit Committee will indicate its concurrence or non-concurrence with the Auditor-General's conclusion on the annual financial statement after the review of the audited financial statements.

Internal audit

The Internal Audit Manager was on maternity leave for six months during the year. The Audit Committee approached the Provincial Treasury for assistance with technical capacity for the six months period after engagement with management revealed that the dire cash flow situation of the municipality will not allow for the procurement of an internal audit service provider. However, the Provincial Treasury did not positively respond to the request. The capacity of the Internal Audit Unit was therefore severely constrained during the year and as such the internal audit activity could not effectively address the risks pertinent to the municipality. The Internal Audit Manager resumed full responsibilities towards the year end and this will significantly improve the overall effectiveness of the Internal Audit Unit.

Auditor-General of South Africa

We have reviewed the municipality's implementation plan for audit issues raised in the prior year and we are not satisfied that the matters have been adequately resolved due to the following significant unresolved matters:

- Fruitless and wasteful expenditure is yet to be addressed
- Irregular expenditure continued to increase
- Lack of credible Asset management
- Revenue completeness and collections are still problematic
- Lack of effective cash management
- Inadequate compliance with legislation
- Lack of effective performance management

The Audit Committee met with representatives from the Office of the Auditor-General South Africa during the year to discuss issues of mutual concern and ensure that there are no unresolved issues. However, we could not agree with the AGSA on their understanding of the oversight function of the Audit Committee as enshrined in Section 166 of MFMA. The AGSA evaluation of the effectiveness of the audit committee is premised on the fact that the audit committee should perform management functions of implementation of internal control and risk management rather than the oversight on internal control and risk management as required by the MFMA, Treasury Regulations and Audit Committee Charter.

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Mr. C. Ogu
Chairperson of the Audit Committee

Date: ____________________________

Statement of Financial Position as at 30 June 2018

Figures in Rand	Notes	2018	2017 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	463,661	918,801
Inventories	4	765,256	4,959,485
Other financial assets	5	1,315,517	1,282,423
Receivables from exchange transactions	6&8	29,122,944	26,980,241
Receivables from non-exchange transactions	7&8	18,081,639	15,302,388
VAT receivable	9	9,079,552	6,800,299
Total Current Assets		**58,828,569**	**56,243,637**
Non-Current Assets			
Other financial assets	5	1,658,375	933,956
Intangible assets	10	256,774	376,470
Investment property	11	1,524,000	1,505,000
Property, plant and equipment	12	769,117,058	764,285,654
Total Non-Current Assets		**772,556,207**	**767,101,080**
Total Assets		**831,384,776**	**823,344,717**
Liabilities			
Current Liabilities			
Bank overdraft	3	208,581	-
Consumer deposits	14	1,772,549	1,734,907
Employee benefit obligation	15	614,796	614,796
Finance lease obligation	16	2,643,456	1,184,127
Other financial liabilities	17	8,827,274	6,905,550
Payables from exchange transactions	18	279,899,113	232,516,325
Provisions	19	4,749,658	3,792,240
Unspent conditional grants and receipts	20	7,641,851	-
Total Current Liabilities		**306,357,278**	**246,747,945**
Non-Current Liabilities			
Employee benefit obligation	15	17,802,897	17,802,897
Finance lease obligation	16	8,854,802	4,945,241
Other financial liabilities	17	963,702	2,050,523
Provisions	19	64,814,370	54,971,860
Total Non-Current Liabilities		**92,435,771**	**79,770,521**
Total Liabilities		**398,793,049**	**326,518,466**
Net Assets		**432,591,727**	**496,826,251**
Accumulated surplus		432,591,727	496,826,251

The accounting policies on pages 32 to 64 and the notes on pages 65 to 112 form an integral part of the annual financial statements.

* See Note 55 & 54

Statement of Financial Performance for the year ended 30 June 2018

Figures in Rand	Notes	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Agency services	21	207,123	1,377,192
Interest received	22	12,012,926	15,844,749
Rental of facilities and equipment	23	334,335	265,801
Service charges	24	106,979,799	90,857,350
Other income	25	1,442,894	1,074,038
Total revenue from exchange transactions		**120,977,077**	**109,419,130**
Revenue from non-exchange transactions			
Property rates	26	17,449,258	12,544,777
Transfer revenue			
Fines	27	66,316	57,029
Government grants & subsidies	28	95,600,149	88,296,421
Public contributions and donations	29	5,688,307	64,944
Total revenue from non-exchange transactions		**118,804,030**	**100,963,171**
Total revenue	30	**239,781,107**	**210,382,301**
Expenditure			
Bulk purchases	31	54,144,446	54,630,835
Contracted services	32	16,936,113	12,516,018
Debt impairment	33	13,285,577	22,111,070
Depreciation and amortisation	34	31,012,859	37,440,512
Employee related costs	35	104,490,659	97,331,136
Finance costs	36	31,887,283	30,684,137
General expenses	37	26,074,013	27,340,839
Grant expenses	38	11,942,334	16,808,415
Impairment losses	39	1,307,533	1,426,551
Remuneration of councillors	40	6,585,940	6,040,201
Repairs and maintenance	41	3,980,987	4,219,523
Total expenditure		**301,647,744**	**310,549,237**
Operating deficit		**(61,866,637)**	**(100,166,936)**
Actuarial gains/(losses)	15	-	2,438,800
Fair value adjustments	42	19,000	88,000
Loss on disposal of assets and liabilities		(2,386,885)	(51,263)
		(2,367,885)	**2,475,537**
Deficit for the year		**(64,234,522)**	**(97,691,399)**

The accounting policies on pages 32 to 64 and the notes on pages 65 to 112 form an integral part of the annual financial statements.

* See Note 55 & 54

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	**594,517,650**	**594,517,650**
Changes in net assets		
Deficit for the year	(97,691,399)	(97,691,399)
Total changes	(97,691,399)	(97,691,399)
Restated* Balance at 01 July 2017	**496,826,249**	**496,826,249**
Changes in net assets		
Deficit for the year	(64,234,522)	(64,234,522)
Total changes	(64,234,522)	(64,234,522)
Balance at 30 June 2018	**432,591,727**	**432,591,727**

The accounting policies on pages 32 to 64 and the notes on pages 65 to 112 form an integral part of the annual financial statements.

* See Note 55 & 54

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Taxation		17,449,258	12,544,777
Sale of goods and services		104,542,195	101,438,681
Grants		106,217,372	91,360,960
Interest income		12,012,926	15,866,738
		240,221,751	221,211,156
Payments			
Employee costs		(111,076,599)	(103,656,658)
Suppliers		(49,571,818)	(18,366,919)
Finance costs		(30,826,679)	(30,221,674)
		(191,475,096)	(152,245,251)
Net cash flows from operating activities	44	**48,746,655**	**68,965,905**
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(57,081,220)	(82,398,967)
Proceeds from sale of property, plant and equipment	12	3,322,620	7,316,751
Purchase of other intangible assets	10	(37,452)	(228,820)
Proceeds from sale of financial assets		(757,513)	1,777,114
Other financial asset		-	(200,304)
Net cash flows from investing activities		**(54,553,565)**	**(73,734,226)**
Cash flows from financing activities			
Repayment of other financial liabilities		834,903	(529,421)
Finance lease payments		4,308,286	5,012,375
Net cash flows from financing activities		**5,143,189**	**4,482,954**
Net increase/(decrease) in cash and cash equivalents		**(663,721)**	**(285,367)**
Cash and cash equivalents at the beginning of the year		918,801	1,204,168
Cash and cash equivalents at the end of the year	3	**255,080**	**918,801**

The accounting policies on pages 32 to 64 and the notes on pages 65 to 112 form an integral part of the annual financial statements.

* See Note 55 & 54

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Referen
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Agency services	-	-	**-**	207,123	**207,123**	The municipality did not provide for the revenue as the Department of Transport was supposed to have taken over the function.
Interest received	9,724,700	(129,700)	**9,595,000**	12,012,926	**2,417,926**	The municipality was conservative in providing for Interest revenue because of the bad debt that was written off during the financial year, that led to a decrease outstanding consumer debtors.
Licences and permits	1,635,330	(470,330)	**1,165,000**	-	**(1,165,000)**	
Rental of facilities and equipment	228,600	(169,000)	**59,600**	334,335	**274,735**	The municipality was conservative in providing for Rental of facilities due to the unpredictable need of the communities to use the facilities and equipment of the municipality.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Service charges	110,609,832	2,858,307	**113,468,139**	106,979,799	**(6,488,340)**	The unpredictable seasonal useage of farmers and increased farmworkers during harvest season led to the increase in billed revenue.
Other income	625,400	(149,200)	**476,200**	1,442,894	**966,694**	
Total revenue from exchange transactions	**122,823,862**	**1,940,077**	**124,763,939**	**120,977,077**	**(3,786,862)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	18,354,572	2,281,359	**20,635,931**	17,449,258	**(3,186,673)**	
Transfer revenue						
Fines	194,100	(117,900)	**76,200**	66,316	**(9,884)**	The municipality was conservative in budgeting for Fines to be received by the municipality
Government grants and subsidies	104,042,000	-	**104,042,000**	95,600,149	**(8,441,851)**	The municipality did not budget for the Energy Efficiency Demand Systems Management Grant (EEDSM) that was tranfered to the municipality during the financial year under review
Public contributions and donations	-	-	**-**	5,688,307	**5,688,307**	The municipality did not budget for any donations to be reveived during the financial year under review
Total revenue from non-exchange transactions	**122,590,672**	**2,163,459**	**124,754,131**	**118,804,030**	**(5,950,101)**	
Total revenue	**245,414,534**	**4,103,536**	**249,518,070**	**239,781,107**	**(9,736,963)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Expenditure						
Employee related costs	(95,672,788)	(7,541,966)	**(103,214,754)**	(104,490,659)	**(1,275,905)**	
Remuneration of councillors	(6,259,559)	14,007	**(6,245,552)**	(6,585,940)	**(340,388)**	
Depreciation and amortisation	(1,891,506)	1,891,506	**-**	(31,012,859)	**(31,012,859)**	The municipality did not budget for non-cash items for the financial year under review
Impairment losses	-	-	**-**	(1,307,533)	**(1,307,533)**	The municipality did not budget for non-cash items for the financial year under review
Finance costs	(1,890,000)	642,000	**(1,248,000)**	(31,887,283)	**(30,639,283)**	There was a significance increase in the amount owed to Eskom and other creditors as a result of the Municipality having cash flow challenges
Debt impairment	(16,643,849)	9,827,150	**(6,816,699)**	(13,285,577)	**(6,468,878)**	The municipality did not budget for non-cash items for the financial year under review
Repairs and maintenance	(5,956,341)	(2,132,668)	**(8,089,009)**	(3,980,987)	**4,108,022**	The municipality 's infrastructure is aging thus resulting in high maintainance cost specifically on Water, sanitation and electricitymaint enance
Bulk purchases	(49,902,914)	(7,978,364)	**(57,881,278)**	(54,144,446)	**3,736,832**	
Contracted services	(14,114,000)	2,288,000	**(11,826,000)**	(16,936,113)	**(5,110,113)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Transfers and Subsidies	-	-	-	(11,942,334)	**(11,942,334)**	The municipality did not budget for the expenditure relating to the support provided to its Indigent consumers and themunicipality's equitable share grant received during the financial year
General Expenses	(16,176,784)	(2,415,497)	**(18,592,281)**	(26,074,013)	**(7,481,732)**	The general expenses increased due to the increase in routine operations as a result of savings in the cost of contracted services
Total expenditure	**(208,507,741)**	**(5,405,832)**	**(213,913,573)**	**(301,647,744)**	**(87,734,171)**	
Operating deficit	**36,906,793**	**(1,302,296)**	**35,604,497**	**(61,866,637)**	**(97,471,134)**	
Loss on disposal of assets	-	-	-	(2,386,885)	**(2,386,885)**	The municipality did not budget for non-cash items for the financial year under review
Fair value adjustments	-	-	-	19,000	**19,000**	The municipality did not budget for non-cash items for the financial year under review
	-	**-**	**-**	**(2,367,885)**	**(2,367,885)**	
Deficit before taxation	**36,906,793**	**(1,302,296)**	**35,604,497**	**(64,234,522)**	**(99,839,019)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**36,906,793**	**(1,302,296)**	**35,604,497**	**(64,234,522)**	**(99,839,019)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	748,000	-	**748,000**	765,256	**17,256**	On year end the municipality still had pre-paid water meters on hand that still need to install as part of an Infrastructure project
Other financial assets	4,946,000	-	**4,946,000**	1,315,517	**(3,630,483)**	Bad debts was written of during the financial year that led to a decrease in ammount of Long-term debtors
Receivables from exchange transactions	18,829,051	-	**18,829,051**	29,122,944	**10,293,893**	Due to the non-payment of Consumers the ammount of outstanding debtors increase during the financial year under review
Receivables from non-exchange transactions	9,470,949	-	**9,470,949**	18,081,639	**8,610,690**	Due to the non-payment of Consumers the ammount of outstanding debtors increase during the financial year under review
VAT receivable	-	-	**-**	9,079,552	**9,079,552**	The municipality did not budget for a VAT receivable, but due to an VAT review done during the year the VAT receivable was corrected

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash and cash equivalents	4,258,000	-	**4,258,000**	463,661	**(3,794,339)**	The municipality cash decreased due to the extreme cash flow challenges
	38,252,000	**-**	**38,252,000**	**58,828,569**	**20,576,569**	
Non-Current Assets						
Investment property	1,550,000	-	**1,550,000**	1,524,000	**(26,000)**	
Property, plant and equipment	863,483,327	32,604,497	**896,087,824**	769,117,058	**(126,970,766)**	Due to a number of assets impaired in the 2016-17 including assets that were destroyed / disposed as a result of vandalisation, the status of the municipality's assets and the increase in depreciation led to the decrase in the carrying value of PPE
Intangible assets	214,000	-	**214,000**	256,774	**42,774**	
Other financial assets	4,258,000	-	**4,258,000**	1,658,375	**(2,599,625)**	
	869,505,327	**32,604,497**	**902,109,824**	**772,556,207**	**(129,553,617)**	
Total Assets	**907,757,327**	**32,604,497**	**940,361,824**	**831,384,776**	**(108,977,048)**	
Liabilities						
Current Liabilities						
Other financial liabilities	4,287,366	-	**4,287,366**	8,827,274	**4,539,908**	
Finance lease obligation	-	-	**-**	2,643,456	**2,643,456**	
Payables from exchange transactions	92,486,996	-	**92,486,996**	279,899,106	**187,412,110**	
Consumer deposits	1,860,000	-	**1,860,000**	1,772,549	**(87,451)**	
Employee benefit obligation	-	-	**-**	614,796	**614,796**	
Unspent conditional grants and receipts	-	-	**-**	7,641,851	**7,641,851**	
Provisions	6,258,000	-	**6,258,000**	4,749,658	**(1,508,342)**	
Bank overdraft	-	-	**-**	208,581	**208,581**	
	104,892,362	**-**	**104,892,362**	**306,357,271**	**201,464,909**	
Non-Current Liabilities						
Other financial liabilities	5,871,951	-	**5,871,951**	963,702	**(4,908,249)**	
Finance lease obligation	-	-	**-**	8,854,802	**8,854,802**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Employee benefit obligation	56,267,366	-	**56,267,366**	17,802,897	**(38,464,469)**	
Provisions	-	-	**-**	64,814,370	**64,814,370**	
	62,139,317	**-**	**62,139,317**	**92,435,771**	**30,296,454**	
Total Liabilities	**167,031,679**	**-**	**167,031,679**	**398,793,042**	**231,761,363**	
Net Assets	**740,725,648**	**32,604,497**	**773,330,145**	**432,591,734**	**(340,738,411)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	740,725,648	32,604,497	**773,330,145**	432,591,734	**(340,738,411)**	

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2018											
Financial Performance											
Property rates	18,354,572	2,281,359	20,635,931	-		20,635,931	17,449,258		(3,186,673)	85 %	95 %
Service charges	110,609,832	2,858,307	113,468,139	-		113,468,139	106,979,799		(6,488,340)	94 %	97 %
Investment revenue	9,724,700	(129,700)	9,595,000	-		9,595,000	12,012,926		2,417,926	125 %	124 %
Transfers recognised - operational	68,635,200	-	68,635,200	-		68,635,200	68,566,908		(68,292)	100 %	100 %
Other own revenue	2,683,430	(906,430)	1,777,000	-		1,777,000	2,687,895		910,895	151 %	100 %
Total revenue (excluding capital transfers and contributions)	**210,007,734**	**4,103,536**	**214,111,270**	**-**		**214,111,270**	**207,696,786**		**(6,414,484)**	**97 %**	**99 %**
Employee costs	(95,672,788)	(7,541,966)	(103,214,754)	-	-	(103,214,754)	(104,490,659)	1,275,905	(1,275,905)	101 %	109 %
Remuneration of councillors	(6,259,559)	14,007	(6,245,552)	-	-	(6,245,552)	(6,585,940)	340,388	(340,388)	105 %	105 %
Debt impairment	(16,643,849)	9,827,150	(6,816,699)			(6,816,699)	(13,285,577)	6,468,878	(6,468,878)	195 %	80 %
Depreciation and asset impairment	(1,891,506)	1,891,506	-			-	(32,320,392)	32,320,392	(32,320,392)	DIV/0 %	1,709 %
Finance charges	(1,890,000)	642,000	(1,248,000)	-	-	(1,248,000)	(31,887,283)	30,639,283	(30,639,283)	2,555 %	1,687 %
Materials and bulk purchases	(49,902,914)	(7,978,364)	(57,881,278)	-	-	(57,881,278)	(54,144,446)	-	3,736,832	94 %	108 %
Transfers and grants	-	-	-	-	-	-	(11,942,334)	11,942,334	(11,942,334)	DIV/0 %	DIV/0 %
Other expenditure	(36,247,125)	(2,260,165)	(38,507,290)	-	-	(38,507,290)	(49,996,225)	11,488,935	(11,488,935)	130 %	138 %
Total expenditure	**(208,507,741)**	**(5,405,832)**	**(213,913,573)**	**-**	**-**	**(213,913,573)**	**(304,652,856)**	**94,476,115**	**(90,739,283)**	**142 %**	**146 %**
Surplus/(Deficit)	**1,499,993**	**(1,302,296)**	**197,697**	**-**		**197,697**	**(96,956,070)**		**(97,153,767)**	**(49,043)%**	**(6,464)%**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	35,406,800	-	35,406,800	-		35,406,800	27,033,241		(8,373,559)	76 %	76 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	5,688,307		5,688,307	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**36,906,793**	**(1,302,296)**	**35,604,497**	**-**		**35,604,497**	**(64,234,522)**		**(99,839,019)**	**(180)%**	**(174)%**
Surplus/(Deficit) for the year	**36,906,793**	**(1,302,296)**	**35,604,497**	**-**		**35,604,497**	**(64,234,522)**		**(99,839,019)**	**(180)%**	**(174)%**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2017				
Financial Performance				
Property rates				12,544,777
Service charges				90,857,350
Investment revenue				15,844,749
Transfers recognised - operational				59,271,421
Other own revenue				5,581,363
Total revenue (excluding capital transfers and contributions)				**184,099,660**
Employee costs	2,875,717	-	2,875,717	(97,331,136)
Remuneration of councillors	-	-	-	(6,040,201)
Debt impairment	22,111,070	-	22,111,070	(22,111,070)
Depreciation and asset impairment	40,519,606	-	40,519,606	(38,867,063)
Finance charges	28,064,776	-	28,064,776	(30,684,137)
Materials and bulk purchases	1,530,835	-	1,530,835	(54,630,835)
Transfers and grants	3,057,959	-	3,057,959	(16,808,415)
Other expenditure	14,014,145	-	14,014,145	(44,408,146)
Total expenditure	**112,174,108**	**-**	**112,174,108**	**(310,881,003)**
Surplus/(Deficit)				**(126,781,343)**
Transfers recognised - capital				29,025,000
Contributions recognised - capital and contributed assets				64,944
Surplus (Deficit) after capital transfers and contributions				**(97,691,399)**
Surplus/(Deficit) for the year				**(97,691,399)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

The amounts disclosed in the audited annual financial statementsare rounded-off to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Accounting Policies

1.4 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- Property intended for sale in the ordinary course of operations or in the process of construction or development from such sale;
- Property being constructed or developed on behalf of third parties;
- Owner occupied property, including among other things property held for future use as owner occupied property, property held for future developments and subsequent use as owner occupied property, property occupied by employees such as housing personnel (whether or not the employees pay rent at market rates) and owner occupied property awaiting disposal;
- Property that is being constructed for future use as investment property;
- Property that is leased to another entity as investment property;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

Accounting Policies

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Accounting Policies

1.5 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The municipality has capitalised the provision for landfill rehabilitation as per GRAP 17 (Property, plant and equipment). In accordance with GRAP 17, this asset is depreciated over the estimated useful life of the landfill, as determined in the valuation of the landfill rehabilitation provision.

Depreciation only commences when the asset is ready for its intended use.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10-50 years
Plant and machinery	Straight line	2-80 years
Furniture and fixtures	Straight line	3-15 years
Motor vehicles	Straight line	3-15 years
Office equipment	Straight line	2-5 years
Computer equipment	Straight line	2-5 years
Infrastructure	Straight line	5-60 years
Community	Straight line	5-60 years
Landfill sites	Straight line	1-12 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 41).

Accounting Policies

1.5 Property, plant and equipment (continued)

The municipality discloses relevant information relating to assets under construction or development, if any, in the notes to the financial statements (see note 8).

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

1.7 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	1-2 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 41).

The municipality discloses relevant information relating to assets under construction or development, if any, in the notes to the financial statements (see note 8).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Accounting Policies

1.8 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.9 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Accounting Policies

1.9 Financial instruments (continued)

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Cash and cash equivalents	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Consumer debtors	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

Accounting Policies

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.15 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality’s own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an municipality’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision in the statement of financial position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all medical aid funds, with which the municipality is associated, provide forcontinued membership

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations i1n the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Provincially-administered defined benefit plans

The municipality contributes to various national and provincial-administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the projected unit credit method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Accounting Policies

1.15 Employee benefits (continued)

Defined benefit pension plans

The municipality has an obligation to provide post-retirement pension benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Long-service allowance

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the long-service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality’s liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

1.16 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Accounting Policies

1.16 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 52.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs

Accounting Policies

1.16 Provisions and contingencies (continued)

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2018. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2018 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in 19.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.17 Landfill Rehabilitation Provision

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital.

The municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which an municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The asset is measured using the cost model:
- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.18 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Interest and Investment income

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Interest earned on investments is recognised in the statement of financial performance on the time-proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the statement of financial performance:
- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unspent conditional grants is allocated directly to the creditor: unspent conditional grants, if the grant conditions indicate that interest is payable to the funder.

Service charges

Service charges are levied in terms of approved tariffs. Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by council, and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made seven days before year-end are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement:
- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership
  nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Accounting Policies

1.20 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.20 Revenue from non-exchange transactions (continued)

Services in-kind

The municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Grants, Transfers and Donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.21 Revenue

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.23 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.24 Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

1.25 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Accounting Policies

1.25 Accounting by principals and agents (continued)

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.26 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.27 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.28 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.29 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA states the following "*Irregular expenditure in relation to a municipality or municipal entity,* means
(a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act and which has not been condoned in terms of section 170
(b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act and which has not been condoned in terms of this Act
(c) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act 1998 (Act No 20 of 1998) or
(d) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by –laws giving effect to such policy and which has not been condoned in terms of such policy or by-law

This definition excludes expenditure by a municipality which falls within the definition of "Unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the annual financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.30 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

Accounting Policies

1.31 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

1.32 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the financial period from 01/07/2017 to 30/06/2018.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.33 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.34 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Accounting Policies

1.35 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.36 Change on accounting policies estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

1.37 Bad debts written off

Bad debts are written off in the year during which they are identified as irrecoverable, subject to the approval by the appropriate delegated authority. When a receivable is considered uncollectible, it is written off against the debt provision account. Subsequent recoveries of amounts previously written off are credited against the Statement of Financial Performance.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

The most significant changes to the Standard are:
- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 16 (as amended 2016): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

The most significant changes to the Standard are:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

The most significant changes to the Standard are:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

The most significant changes to the Standard are:
- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB’s recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 26 (as amended 2016): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Bank balances	51,309	505,887
Cash on hand	28,801	5,531
Short-term deposits	383,551	407,383
Bank overdraft	(208,581)	-
	255,080	**918,801**
Current assets	463,661	918,801
Current liabilities	(208,581)	-
	255,080	**918,801**
The total amount of undrawn facilities available for future operating activities and commitments	255,080	918,801

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
Current accounts						
ABSA Bank Limited: 4051 445 435	(208,581)	491,025	453,884	(208,581)	429,013	453,884
Standard Bank Limited: 0417 902 19	51,309	76,874	133,692	51,309	76,874	133,692
Short-term Investments						
ABSA Bank Limited: 9117 271 903	3,336	23,407	222,927	3,336	23,407	222,927
First National Bank: 6200 698 309 4	1,868	1,918	2,047	1,868	1,918	2,047
Standard Bank Limited: 0486 432 700 02	1,074	2,558	10,068	1,074	2,558	10,068
Standard Bank Limited: 0489 042 950 04	59,930	59,930	59,930	59,930	59,930	59,930
Stanlib: I533 550 21	317,343	319,570	319,328	317,343	319,570	319,328
Total	**226,279**	**975,282**	**1,201,876**	**226,279**	**913,270**	**1,201,876**

4. Inventories

	2018	2017
Maintenance materials	675,946	3,005,961
Pre-paid water meters	-	1,866,964
RDP Properties	1,340	1,340
Water	87,970	85,220
	765,256	**4,959,485**

No impairments of the values of inventory have been written off as management considers that all inventory and consumables are useable and any losses on ultimate realisation are immaterial. Periodically, physical stock counts are carried out and any obsolete and redundant items are identified and written off under Council authority.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Other financial assets

Designated at fair value		
Long-term debtors	12,004,552	9,534,698
The consumers made arrangements with the municipality to pay off their long overdue rates and services accounts. The outstanding accounts will be settled interest free in equal installments over a period of 12 to 24 months.		
Old Mutual - 1166 5522	66,978	66,978
The policy (Registered in Eksteenskuil Bestuursraad) has reached the end of its term on 1 August 2003 and has been inactive since then. The maturity proceeds are not exposed to the market, thus the maturity value as at 1 August 2003 is still the same as at 30 June 2018.		
	12,071,530	9,601,676
Impairments	(9,097,638)	(7,385,297)
	2,973,892	**2,216,379**

Non-current assets		
Designated at fair value	1,658,375	933,956
Current assets		
Designated at fair value - Long-term debtors	1,248,539	1,215,445
Designated at fair value - Old Mutual	66,978	66,978
	1,315,517	**1,282,423**

Impairment of Long-term debtors

Receivables from exchange transactions	(9,097,638)	(7,385,297)

There are no Other financial assets pleged as security for overdraft facilities.

6. Receivables from exchange transactions

Consumer debtors - Electricity	10,245,590	7,334,624
Consumer debtors - Water	8,183,740	8,328,865
Consumer debtors - Waste water	5,083,888	5,160,309
Consumer debtors - Refuse	4,092,025	4,345,588
Consumer debtors - Long-term debtors	599,561	1,046,436
Consumer debtors - Other	918,140	764,419
	29,122,944	**26,980,241**

Trade and other receivables pledged as security

There are no Consumer debtors pleged as security for overdraft facilities.

Please refer to note 8 for the detailed consumer debtors disclosure.

Fair value of trade and other receivables

Trade and other receivables	29,122,944	39,567,524

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

6. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2018, Consumer debtors of R 115,974,998 (2017: R 99,479,809) were impaired and provided for.

The amount of the provision was R (86,852,054) as of 30 June 2018 (2017: R (75,490,584)).

The ageing and details of the impairment is as follows:

Ageing of the receivables from exchange transactions impairment	2018	2017
Current (0 -30 days)	(710,763)	(38,730)
31 - 60 days	(641,763)	(48,627)
61 - 90 days	(611,813)	(81,724)
91 - 120 days	(573,843)	(93,909)
121 - 365 days	(8,473,525)	(2,326,642)
> 365 days	(75,840,347)	(72,900,952)
	(86,852,054)	**(75,490,584)**

Details of the receivables from exchange transactions impairment	2018	2017
Electricity	(15,566,577)	(19,665,472)
Water	(34,001,549)	(26,028,742)
Waste water	(13,998,263)	(10,581,169)
Refuse	(14,304,657)	(10,960,704)
Long-term debtor installments	(3,274,214)	(2,698,082)
Other	(5,706,794)	(5,556,415)
	(86,852,054)	**(75,490,584)**

The carrying amount of trade and other receivables are denominated in the following currencies:

	2018	2017
Rand	29,122,944	39,567,524

Reconciliation of provision for impairment of trade and other receivables

	2018	2017
Opening balance	(75,490,584)	(76,788,460)
Provision for impairment	(11,361,470)	(20,843,852)
Amounts written off as uncollectible	-	22,141,728
	(86,852,054)	**(75,490,584)**

The creation and release of provision for impaired receivables from exchange transactions have been included in operating expenses in surplus or deficit.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Receivables from non-exchange transactions

Consumer debtors - Rates	18,081,639	15,302,388

Receivables from non-exchange transactions pledged as security

There are no Consumer debtors pleged as security for overdraft facilities.

Please refer to note 8 for detailed consumer debtors disclosure.

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	18,081,639	15,302,388

Receivables from non-exchange transactions impaired

As of 30 June 2018, Consumer debtors of R 37,601,508 (2017: R 34,610,492) were impaired and provided for.

The amount of the provision was R (19,519,869) as of 30 June 2018 (2017: R (19,308,104)).

The ageing and details of the impairment is as follows:

Ageing of the impairment		
Current (0 -30 days)	(134,323)	(86,282)
31 - 60 days	(805)	(47,564)
61 - 90 days	(1,718)	(52,855)
91 - 120 days	(498)	(100,316)
121 - 365 days	(2,421,164)	(1,872,961)
> 365 days	(16,961,361)	(17,148,126)
	(19,519,869)	**(19,308,104)**

Details of the impairment		
Property rates	(19,519,869)	(19,308,104)
	(19,519,869)	**(19,308,104)**

The carrying amount of other receivables from non-exchange transactions are denominated in the following currencies:

Rand	18,081,639	15,302,388

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(19,308,104)	(15,312,383)
Provision for impairment	(211,765)	(4,835,757)
Amounts written off as uncollectible	-	840,036
	(19,519,869)	**(19,308,104)**

The creation and release of provision for impaired receivables from non-exchange transactions have been included in operating expenses in surplus or deficit.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Consumer debtors disclosure

	2018	2017
Gross balances		
Rates	37,601,508	34,610,492
Electricity	25,812,167	27,000,096
Water	42,185,289	34,357,607
Waste water	19,082,151	15,741,478
Refuse	18,396,682	15,306,292
Long-term debtor's installments	3,873,775	3,744,518
Other	6,624,934	6,320,834
	153,576,506	**137,081,317**
Less: Allowance for impairment		
Rates	(19,519,869)	(19,308,104)
Electricity	(15,566,577)	(19,665,472)
Water	(34,001,549)	(26,028,742)
Waste water	(13,998,263)	(10,581,169)
Refuse	(14,304,657)	(10,960,704)
Long-term debtor's installments	(3,274,214)	(2,698,082)
Other	(5,706,794)	(5,556,415)
	(106,371,923)	**(94,798,688)**
Net balance		
Rates	18,081,639	15,302,388
Electricity	10,245,590	7,334,624
Water	8,183,740	8,328,865
Waste water	5,083,888	5,160,309
Refuse	4,092,025	4,345,588
Long-term debtor's installments	599,561	1,046,436
Other	918,140	764,419
	47,204,583	**42,282,629**
Included in above is receivables from exchange transactions		
Electricity	10,245,590	16,940,913
Water	8,183,740	11,156,057
Waste water	5,083,888	5,226,737
Refuse	4,092,025	4,411,922
Long-term debtor's installments	599,561	1,046,436
Other	918,140	785,459
	29,122,944	**39,567,524**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	18,081,639	19,902,331
Net balance	**47,204,583**	**59,469,855**
Rates		
Current (0 -30 days)	1,339,379	1,725,298
31 - 60 days	191,210	602,739
61 - 90 days	157,292	583,952
91 - 120 days	717,279	619,879
121 - 365 days	8,805,571	10,671,042
> 365 days	26,390,777	20,407,581
Less: Allowance for impairment	(19,519,869)	(19,308,103)
	18,081,639	**15,302,388**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Consumer debtors disclosure (continued)

Electricity		
Current (0 -30 days)	3,397,192	4,069,316
31 - 60 days	881,379	1,484,455
61 - 90 days	693,451	1,126,676
91 - 120 days	590,685	1,015,851
121 - 365 days	4,461,633	6,453,080
> 365 days	15,787,828	12,850,718
Less: Allowance for impairment	(15,566,578)	(19,665,472)
	10,245,590	**7,334,624**
Water		
Current (0 -30 days)	1,570,701	1,451,458
31 - 60 days	1,053,208	839,333
61 - 90 days	992,672	834,609
91 - 120 days	951,729	806,475
121 - 365 days	7,135,909	6,143,379
> 365 days	30,481,070	24,282,353
Less: Allowance for impairment	(34,001,549)	(26,028,742)
	8,183,740	**8,328,865**
Waste water		
Current (0 -30 days)	922,128	737,940
31 - 60 days	513,181	423,840
61 - 90 days	461,218	385,226
91 - 120 days	452,279	338,150
121 - 365 days	2,981,313	2,456,510
> 365 days	13,752,031	11,399,812
Less: Allowance for impairment	(13,998,262)	(10,581,169)
	5,083,888	**5,160,309**
Refuse		
Current (0 -30 days)	686,511	552,025
31 - 60 days	455,395	371,791
61 - 90 days	414,921	333,021
91 - 120 days	399,427	319,495
121 - 365 days	2,789,067	2,299,801
> 365 days	13,651,360	11,430,158
Less: Allowance for impairment	(14,304,656)	(10,960,703)
	4,092,025	**4,345,588**
Long-term debtor installments		
Current (0 -30 days)	170,846	137,084
31 - 60 days	107,846	92,204
61 - 90 days	97,086	85,669
91 - 120 days	93,154	88,780
121 - 365 days	529,680	690,253
> 365 days	2,875,162	2,650,529
Less: Allowance for impairment	(3,274,213)	(2,698,083)
	599,561	**1,046,436**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Consumer debtors disclosure (continued)

Other services		
Current (0 -30 days)	202,870	65,209
31 - 60 days	52,023	52,676
61 - 90 days	51,055	50,706
91 - 120 days	51,706	50,204
121 - 365 days	393,287	700,280
> 365 days	5,873,994	5,401,758
Less: Allowance for impairment	(5,706,795)	(5,556,414)
	918,140	**764,419**

Total		
Current (0 -30 days)	8,289,627	8,738,330
31 - 60 days	3,254,242	3,867,038
61 - 90 days	2,867,695	3,399,859
91 - 120 days	3,256,259	3,238,834
121 - 365 days	27,096,460	29,414,345
> 365 days	108,812,222	105,610,135
Less: Allowance for impairment	(106,371,922)	(94,798,686)
	47,204,583	**59,469,855**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	6,707,764	6,962,320
31 - 60 days	2,975,428	3,384,022
61 - 90 days	2,662,209	2,963,474
91 - 120 days	2,487,770	2,788,340
121 - 365 days	21,620,555	22,480,945
> 365 days	93,796,726	91,293,484
	130,250,452	129,872,585
Less: Allowance for impairment	(102,793,110)	(89,465,975)
	27,457,342	**40,406,610**

Industrial/ commercial		
Current (0 -30 days)	900,290	1,128,517
31 - 60 days	164,133	208,038
61 - 90 days	115,557	159,622
91 - 120 days	406,721	151,806
121 - 365 days	2,319,647	2,425,478
> 365 days	8,049,968	6,473,579
	11,956,316	10,547,040
Less: Allowance for impairment	-	(1,043,626)
	11,956,316	**9,503,414**

National and provincial government		
Current (0 -30 days)	469,017	543,341
31 - 60 days	88,484	218,250
61 - 90 days	66,442	216,800
91 - 120 days	334,850	198,860
121 - 365 days	2,115,285	3,174,599
> 365 days	3,861,173	5,448,828
	6,935,251	9,800,678
Less: Allowance for impairment	-	(250,970)
	6,935,251	**9,549,708**

Other		
Current (0 -30 days)	212,557	104,152
31 - 60 days	26,196	56,728
61 - 90 days	23,487	59,963
91 - 120 days	26,918	99,829
121 - 365 days	1,040,972	1,333,322
> 365 days	3,104,356	2,394,246
	4,434,486	4,048,240
Less: Allowance for impairment	(3,578,813)	(4,038,118)
	855,673	**10,122**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Consumer debtors disclosure (continued)

Total		
Current (0 -30 days)	8,289,628	8,738,330
31 - 60 days	3,254,241	3,867,038
61 - 90 days	2,867,695	3,399,859
91 - 120 days	3,256,260	3,238,835
121 - 365 days	27,096,459	29,414,344
> 365 days	108,812,223	105,610,137
	153,576,506	154,268,543
Less: Allowance for impairment	(106,371,923)	(94,798,688)
	47,204,583	**59,469,855**

Less: Allowance for impairment		
Current (0 -30 days)	(845,086)	(125,012)
31 - 60 days	(642,568)	(96,191)
61 - 90 days	(613,530)	(134,579)
91 - 120 days	(574,341)	(194,225)
121 - 365 days	(10,894,689)	(4,199,603)
> 365 days	(92,801,709)	(90,049,078)
	(106,371,923)	**(94,798,688)**

Total debtor past due but not impaired		
Current (0 -30 days)	7,444,542	8,613,318
31 - 60 days	2,611,673	3,770,847
61 - 90 days	2,254,165	3,265,280
91 - 120 days	2,681,919	3,044,610
121 - 365 days	16,201,770	25,214,741
> 365 days	16,010,514	15,561,059
	47,204,583	**59,469,855**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(94,798,687)	(92,100,843)
Contributions to allowance	(15,723,488)	(2,697,844)
Reversal of allowance	4,150,252	-
	(106,371,923)	**(94,798,687)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. VAT receivable

South African Revenue Services	9,079,552	6,800,299

Only once payment is received from debtors or payments made to suppliers the VAT is paid over to or claimed from the South African Revenue Service (SARS).

VAT is payable/receivable on the cash basis.

10. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	645,263	(388,489)	256,774	607,810	(231,340)	376,470

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	376,470	37,452	(157,148)	256,774

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	315,195	228,820	(167,545)	376,470

Pledged as security

There are no Intangible assets pleged as security for overdraft facilities.

11. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1,524,000	-	1,524,000	1,505,000	-	1,505,000

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	1,505,000	19,000	1,524,000

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	1,417,000	88,000	1,505,000

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

11. Investment property (continued)

Fair value of investment properties	1,524,000	1,505,000

Pledged as security

There are no Investment properties pleged as security for overdraft facilities.

Details of property

Erf 1654 Kakamas		
Title deed number T74252/198		
- Purchase price: 1 December 2008	19,830	19,830
- Fair value adjustment	450,170	485,170
	470,000	**505,000**
Erf 666 Keimoes		
Title deed number G16/1942		
- Fair value adjustment	254,000	250,000
Erf 667 Keimoes		
Title deed number G16/1942		
- Fair value adjustment	800,000	750,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 28 June 2018 as per valuation reports. The valuation of investment property were done to reflect the fair value of the municipality's investment properties as at 30 June 2018. Revaluations were performed by an independent valuer, Mr D van Vuuren as a Professional Assosiated Valuer of DDP Valuers. DDP Valuers are not connected to the municipality and have recent experience in location and category of the investment property being valued. The valuation was based on open market value for existing use.

Investment properties comprise residential and commercial properties that are rented out, as well as vacant land held for a currently undetermined use.

There are no restrictions on the realisibility of investment property or the remittance of revenue and proceeds of disposal.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Immovable assets						
Buildings	61,344,296	(15,481,675)	45,862,621	62,498,644	(15,107,405)	47,391,239
Community assets	27,564,544	(9,711,635)	17,852,909	25,218,100	(8,741,008)	16,477,092
Heritage assets	5	-	5	5	-	5
Infrastructure assets	755,723,230	(224,697,875)	531,025,355	763,063,520	(209,145,563)	553,917,957
Land	95,702,380	-	95,702,380	96,242,380	-	96,242,380
Landfill sites	48,894,318	(39,843,172)	9,051,146	48,894,320	(38,791,850)	10,102,470
Work-in-progress	49,367,057	-	49,367,057	20,295,149	-	20,295,149
Movable assets						
Computer equipment	2,540,751	(1,838,644)	702,107	2,456,195	(1,571,693)	884,502
Furniture and fittings	6,052,708	(3,874,284)	2,178,424	5,587,240	(3,290,639)	2,296,601
Motor vehicles	14,611,454	(6,230,813)	8,380,641	14,611,454	(4,505,598)	10,105,856
Office equipment (Leased)	9,939,774	(1,485,380)	8,454,394	6,864,106	(927,616)	5,936,490
Plant and machinery	1,601,944	(1,061,925)	540,019	1,548,030	(912,117)	635,913
Total	**1,073,342,461**	**(304,225,403)**	**769,117,058**	**1,047,279,143**	**(282,993,489)**	**764,285,654**

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Immovable assets							
Buildings	47,391,239	-	(15,518)	-	(1,513,100)	-	45,862,621
Community assets	16,477,092	2,910,854	(239,647)	-	(1,295,390)	-	17,852,909
Heritage assets	5	-	-	-	-	-	5
Infrastructure assets	553,917,957	1,080,948	(431,366)	-	(23,542,184)	-	531,025,355
Land	96,242,380	-	(540,000)	-	-	-	95,702,380
Landfill sites	10,102,470	-	(2)	-	(1,051,322)	-	9,051,146
Work-in-progress	20,295,149	32,842,486	-	(3,770,578)	-	-	49,367,057
Movable assets							
Computer equipment	884,502	84,556	-	-	(251,524)	(15,427)	702,107
Furniture and fittings	2,296,601	468,164	(2,486)	-	(562,214)	(21,641)	2,178,424
Motor vehicles	10,105,856	-	-	-	(466,870)	(1,258,345)	8,380,641
Office equipment (Leased)	5,936,490	7,555,945	(3,002,625)	-	(2,035,416)	-	8,454,394
Plant and machinery	635,913	53,914	-	-	(137,688)	(12,120)	540,019
	764,285,654	**44,996,867**	**(4,231,644)**	**(3,770,578)**	**(30,855,708)**	**(1,307,533)**	**769,117,058**

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Immovable assets								
Buildings	49,813,465	559,122	(30,197)	-	-	(1,724,904)	(1,226,247)	47,391,239
Community assets	17,888,083	2,604	(179,768)	9,733	-	(1,243,560)	-	16,477,092
Heritage assets	5	-	-	-	-	-	-	5
Infrastructure assets	539,542,195	44,273,470	(6,886,445)	265,937	(13,942)	(23,263,258)	-	553,917,957
Land	89,435,600	-	-	18,589,780	(11,783,000)	-	-	96,242,380
Landfill sites	17,072,805	1,813,830	-	-	-	(8,784,165)	-	10,102,470
Work-in-progress	36,187,257	28,435,118	-	-	(44,327,226)	-	-	20,295,149
Movable assets								
Computer equipment	801,125	311,734	(5,894)	-	-	(222,463)	-	884,502
Furniture and fittings	2,057,293	687,599	(9,968)	-	-	(438,323)	-	2,296,601
Motor vehicles	10,907,189	-	(245,893)	-	-	(555,440)	-	10,105,856
Office equipment (Leased)	750,414	6,101,150	-	-	-	(915,074)	-	5,936,490
Plant and machinery	557,201	214,340	(9,849)	-	-	(125,779)	-	635,913
	765,012,632	**82,398,967**	**(7,368,014)**	**18,865,450**	**(56,124,168)**	**(37,272,966)**	**(1,226,247)**	**764,285,654**

Pledged as security

There are no Property, plant and equipment pleged as security for overdraft facilities.

All property, plant and equipment is being fully utilised by the municipality. There is therefore no idle property, plant and equipment.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Property, plant and equipment (continued)

Depreciation rates

Land	Straight line	Indefinite
Buildings	Straight line	10-50 years
Plant and machinery	Straight line	2-80 years
Furniture and fittings	Straight line	3-15 years
Motor vehicles	Straight line	3-15 years
Office equipment	Straight line	2-5 years
Computer equipment	Straight line	2-5 years
Infrastructure assets	Straight line	5-60 years
Community assets	Straight line	5-60 years
Landfill sites	Straight line	1-12 years

Assets subject to finance lease (Net carrying amount)

	2018	2017
Office equipment	8,454,394	5,936,490

A detailed asset register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Cash and cash equivalents	-	463,661	463,661
Other financial assets	1,315,517	-	1,315,517
	1,315,517	**463,661**	**1,779,178**

Financial liabilities

	At cost	Total
Consumer deposits	1,772,549	1,772,549
Finance lease obligation	2,643,456	2,643,456
Other financial liabilities	8,827,274	8,827,274
Trade and other payables from exchange transactions	279,899,113	279,899,113
	293,142,392	**293,142,392**

2017

Financial assets

	At fair value	At amortised cost	Total
Cash and cash equivalents	-	918,801	918,801
Other financial assets	1,282,423	-	1,282,423
	1,282,423	**918,801**	**2,201,224**

Financial liabilities

	At amortised cost	Total
Consumer deposits	1,734,907	1,734,907
Finance lease obligation	1,184,127	1,184,127
Other financial liabilities	6,905,550	6,905,550
Trade and other payables from exchange transactions	232,516,325	232,516,325
	242,340,909	**242,340,909**

14. Consumer deposits

	2018	2017
Electricity	1,249,329	1,247,768
Water	523,220	487,139
	1,772,549	**1,734,907**

Guarantees held in lieu of electricity and water deposits

No interest is paid on deposits.

15. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

The GRAP 25 Statement sets out the measurement recognition and disclosure requirements in accounting for postretirement “defined benefit” plans. It is recommended that the municipality consult with their auditors in determining the appropriate approach for reflecting the results of this valuation in their annual financial statements.

Post retirement medical aid plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member’s death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

In estimating the liability for post-employment health care benefits a number of assumptions are required. GRAP 25 Statement places the responsibility on management to set these assumptions as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post-employment health care arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

Components of Health Care Liabilities

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Contributions-based liability

This is the present value of all future post-retirement health care contributions expected to become payable under the employer’s health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members’ shares) for the current membership.

Benefits-based liability

This is the present value of all future post-retirement health care costs expected to become payable under the employer’s health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today’s terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

Cross-subsidy liability

This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Employee benefit obligations (continued)

Past-service and future-service liability

Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

Accrued liability

In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

Cross-subsidy liability

The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer, for example, should the law governing medical schemes be changed in the future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

Unfunded accrued liability

This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

The amounts recognised in the statement of financial position are as follows:

	2018	2017
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(18,417,693)	(18,417,693)
Current liabilities	(614,796)	(614,796)
Non-current liabilities	(17,802,897)	(17,802,897)
	(18,417,693)	**(18,417,693)**

Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
Opening balance	17,021,634	18,417,693
Net expense recognised in the statement of financial performance	-	(1,396,059)
	17,021,634	**17,021,634**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Past service cost	-	(622,459)
Interest cost	-	1,665,200
Actuarial (gains) losses	-	(2,438,800)
	-	**(1,396,059)**

Calculation of actuarial gains and losses

Basis changes: increase in net discount rate	-	(2,367,845)
Subsidy increases higher than assumed	-	291,661
Changes to membership profile different from assumed	-	(412,855)
Actual benefits vesting, greater than expected	-	50,239
	-	**(2,438,800)**

Figures in Rand	2018	2017

15. **Employee benefit obligations (continued)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.84 %	9.71 %
Health care cost inflation rate	8.54 %	7.99 %
Net effective discount rate	2.23 %	1.59 %

Key demographic assumptions used at the report date:

Average retirement age:	63 years	63 years
Benefit accrual age:	55 years	55 years
Continuation of membership at retirement:	90.00 %	90.00 %
Proportion assumed married at retirement:	95.00 %	95.00 %
Proportion of eligible current non-member employees joining the scheme by retirement:		
Mortality during employment:	SA 85-90	SA 85-90
Mortality post-retirement:	PA90-1 ultimate	PA90-1 ultimate
Expected pension increases	95.00 %	95.00 %
Proportion of employees opting for early retirement	90.00 %	90.00 %

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 9.84% per annum has been used. The corresponding index-linked yield at this term is 1.77%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2018.

The rate is calculated by using a liability-weighted average of yields for the three components of the liability. Each component's fixed-interest and index-linked yield was taken from the bond yield curve at that component's duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

The two components are as follows:

Health Care Cost Inflation Rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 8.16% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.66%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.82% which derives from ((1+9.04%)/(1+8.16%))-1.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Employee benefit obligations (continued)

The expected inflation assumption of 6.66% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.77%) and those of fixed interest bonds (9.04%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+9.04%-0.50%)/(1+1.77%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2018.

Replacement ratio:

This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

16. Finance lease obligation

	2018	2017
Minimum lease payments due		
- within one year	3,684,706	1,771,800
- in second to fifth year inclusive	16,849,014	5,881,150
	20,533,720	7,652,950
less: future finance charges	(5,500,566)	(1,523,582)
Present value of minimum lease payments	**15,033,154**	**6,129,368**
Present value of minimum lease payments due		
- within one year	3,786,276	1,184,127
- in second to fifth year inclusive	11,246,878	4,945,241
	15,033,154	**6,129,368**
Non-current liabilities	8,854,802	4,945,241
Current liabilities	2,643,456	1,184,127
	11,498,258	**6,129,368**

The average lease term was 5 years and the average effective borrowing rate was 11.0% (2017: 10.5%).

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	11,498,258	6,129,368

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
17. Other financial liabilities		
At amortised cost		
Development Bank of Southern Africa Ltd	1,522,164	1,359,310
Loan number: 100498/1 Product number: 61000080		
The loan is secured and is being repaid over a period of 20 years in equal installments of R130,186.67 every 6 months with a fixed interest rate of 12.100% per annum.		
Redemption date: 30/06/2023.		
Development Bank of Southern Africa Ltd	7,400,278	6,813,162
Loan number: 103723/2 Product number: 61001016		
The loan is secured and is being repaid monthly over a period of 7 years in equal installments of R110,140.87 with a fixed interest rate of 6.750% per annum.		
Redemption date: 28/02/2019.		
Development Bank of Southern Africa Ltd	12,919	11,844
Loan Number: 103723/3 Product number: 61001017		
The loan is secured and is being repaid monthly over a period of 5 years in equal installments of R32,506.21 with a fixed interest rate of 6.750% per annum.		
Redemption date: 31/08/2015.		
Development Bank of Southern Africa Ltd	855,615	771,757
Loan number: 13702/101 Product number: 61003256		
The loan is secured and is being repaid over a period of 20 years in equal capital installments of R39,349.17 every 6 months with a semi-floating interest rate of 9.800% per annum.		
Redemption date: 30/06/2021.		
	9,790,976	**8,956,073**
Total other financial liabilities	**9,790,976**	**8,956,073**
Non-current liabilities		
At amortised cost	963,702	2,050,523
Current liabilities		
At amortised cost	8,827,274	6,905,550

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

18. Payables from exchange transactions

Accrual for employee bonusses	2,687,249	2,687,249
Accrual for employee leave pay	5,693,393	5,693,393
Capital projects retention fees	1,039,355	1,039,355
Consumer debtors with credit balances	10,550,009	7,301,993
Department of Transport, Safety and Liaison	37,596,663	35,963,915
Deposits received	290,783	256,053
Payroll creditors	(1,295,607)	(280,967)
Trade payables	223,447,175	180,879,903
Unallocated deposits and receipts	(109,907)	(1,024,569)
	279,899,113	**232,516,325**

Fair value of trade and other payables

Trade payables	223,447,175	180,879,903
Other	56,451,938	56,634,981
	279,899,113	**237,514,884**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Utilised during the year	Change in discount factor	Total
Landfill sites rehabilitation	56,661,330	-	10,971,557	67,632,887
Long service awards	1,931,141	-	-	1,931,141
Performance bonuses	171,629	(171,629)	-	-
	58,764,100	**(171,629)**	**10,971,557**	**69,564,028**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Change in discount factor	Total
Landfill sites rehabilitation	51,493,454	-	5,167,876	56,661,330
Long service awards	1,742,375	188,766	-	1,931,141
Performance bonuses	171,629	-	-	171,629
	53,407,458	**188,766**	**5,167,876**	**58,764,100**

	2018	2017
Non-current liabilities	64,814,370	54,971,860
Current liabilities	4,749,658	3,792,240
	69,564,028	**58,764,100**

Environmental rehabilitation provision

ESS has developed a General Landfill Closure Costing Model (GLCCM) to estimate the final rehabilitation and closure costs for general landfills. The GLCCM is being updated in cooperation with Jones and Wagener Consulting Civil Engineers (Pty) Ltd, a company that is actively involved in rehabilitation and closure of landfill sites. The GLCCM standardises the determination of landfill closure costs between different landfills and for the same landfill over time. The GLCCM is based on the Minimum Requirements for Waste Disposal by Landfill of the Department of Water Affairs (1998), as amended by more recent regulations. The GLCCM provides a reliable best possible estimate of closure costs in terms of paragraph .49 of GRAP 19 or paragraph 36 of IAS 37.

The liability calculated using the GLCCM includes costs associated with:

- Pre-closure planning and approvals (four cost elements)
- Final rehabilitation and closure (seven cost elements)
- 30 years post-closure monitoring (seven costs elements)

Adjustment of unit costs:

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

CPI:

The CPI2 is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 4.4805%.

19. Provisions (continued)

Discount rate:

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used3.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

- For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.
- For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.
- For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

Key financial assumptions used

	For Marchand and Lennertsville landfills	For Kakamas, Keimoes, Kenhardt and Currieskamp landfills
CPI	4.4805 %	5.6372 %
Discount rate	6.9805 %	8.1372 %
Net effective discount rate	3.0 %	2.5 %

Long Service Award Provision

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a long service award is payable after 10 years of continuous service and every 5 years thereafter, until 45 years of service (inclusive), to employees. Furthermore a retirement gift is payable on retirement to employees with 10 years or more service. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

Performance bonus

The municipality's Council took a resolution within the previous financial year to award the directors of the municipality with performance bonusses.

The provided performance bonusses are not been paid to the directors of the municipality yet, and no new resolutions to award the directors with performance bonusses for the year under review has been taken, nor to reverse the previous year's provision.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Expanded Public Works Programme (EPWP)	68,292	-
Integrated National Electrification Programme (INEP)	885,544	-
Municipal Infrastructure Grant (MIG)	1,096,222	-
Water Service Infrastructure Grant (WSIG)	5,591,793	-
	7,641,851	**-**

Movement during the year

Balance at the beginning of the year	-	163,544
Additions during the year	103,242,000	88,296,421
Income recognition during the year	(95,600,149)	(88,459,965)
	7,641,851	**-**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 28 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

21. Agency services

Motor vehicle licence renewals	207,123	1,377,192

22. Investment revenue

Interest revenue		
Other financial assets	205,296	240,746
Interest charged on trade and other receivables	11,807,630	15,604,003
	12,012,926	**15,844,749**

The amount included in Investment revenue arising from exchange transactions amounted to R 205,296.

The amount included in Investment revenue arising from non-exchange transactions amounted to R 11,807,630.

23. Rental of facilities and equipment

Facilities owned by the Municipality		
Premises	334,335	265,801

24. Service charges

Sale of electricity	70,932,381	62,694,333
Sale of water	17,994,032	12,595,318
Sewerage and sanitation charges	10,346,793	9,058,854
Refuse removal	7,706,593	6,508,845
	106,979,799	**90,857,350**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Other income

Administration income	22,640	2,203
Buildingplan fees	51,703	40,310
Call out fees	1,111	-
Cemetery fees	32,716	30,131
Clearance certificates	72,526	98,536
Commission: Policies and other	227,894	175,253
Connection fees	155,672	141,832
Photocopies	1,737	5,664
Posters and banners	4,213	170
Property border exceeding's	-	43,195
Re-connection fees	23,565	20,525
Resort entrance fees	66,779	66,701
Rezoning applications	380	5,288
Sewer blockages	20,821	2,567
Tender fees	6,930	50,877
Testing of installations - Meters	456	4,174
Traffic documents and registrations	705,242	372,571
Traffic escorts	993	2,561
Valuation certificates	5,697	4,367
Sub-divisions	40,450	-
Sundry income	1,369	7,113
	1,442,894	**1,074,038**

26. Property rates

Rates received

All properties within the municipality's jurisdiction	20,659,175	14,754,748
Less: Rebates	(3,209,917)	(2,209,971)
	17,449,258	**12,544,777**

Valuations

Residential	997,374,000	1,063,918,000
Commercial	85,124,200	71,574,200
State	239,858,000	173,048,000
Municipal	7,433,000	10,534,000
Small holdings and farms	5,218,713,655	5,245,512,655
Exempted valuations	197,742,000	186,836,000
	6,746,244,855	**6,751,422,855**

Valuations on properties within the municipal jurisdiction are performed every 5 years. The last general valuation roll came into effect on 1 July 2014. Interim valuations are not being performed, as prescribed by legislation, on an annual basis due to the low level of new developments within the municipal jurisdiction. The low level of new developments deemed the interim valuation process not be cost effective. Interim valuations, if performed, will consider the changes in individual property values due to alterations and subdivisions.

The detailed schedule of applicable tariffs and rebates are advertised annually and is available from the municipality on request.

Rates are levied on an annual basis with the final date for payment for annual rate payers to be 30 September and 30 June for monthly rate payers. Interest at the maximum bank percentage charged per annum plus 1%, is levied on consumer’s property rates outstanding amount, one month after the due date.

The municipality was granted extension by MEC for Corporative Governance, Human Settlements and Traditional Affairs to implement a new general valuation roll until 30 June 2021. The new general valuation will be implemented on 1 July 2021.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. Fines

Traffic fines	54,730	-
General	-	54,250
Library	1,012	2,779
Meter tampering	10,574	-
	66,316	**57,029**

28. Government grants and subsidies

Operating grants		
Equitable share	63,164,000	54,787,000
Local Government Finance Management Grant (FMG)	2,345,000	2,010,000
Municipal Infrastructure Grant (MIG)	1,137,200	-
Department of Sports, Arts and Culture - Library	989,000	1,377,000
Subsidy - Training Costs	-	97,421
Expanded Public Works Programme (EPWP)	931,708	1,000,000
	68,566,908	**59,271,421**
Capital grants		
Energy Efficiency Demand Systems Management Grant (EEDSM)	-	3,000,000
Integrated National Electrification Programme (INEP)	2,114,456	2,000,000
Municipal Infrastructure Grant (MIG)	20,510,578	23,895,000
Department of Economic Development and Tourism	-	130,000
Water Service Infrastructure Grant (WSIG)	4,408,207	-
	27,033,241	**29,025,000**
	95,600,149	**88,296,421**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	32,436,149	33,509,421
Unconditional grants received	63,164,000	54,787,000
	95,600,149	**88,296,421**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant (MIG)

Current-year receipts	22,744,000	23,895,000
Conditions met - transferred to revenue	(21,647,778)	(23,895,000)
	1,096,222	**-**

Conditions still to be met - remain liabilities (see note 20).

This grant was utilized as funding for the municipality's Infrastructure projects.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Government grants and subsidies (continued)

Local Government Finance Management Grant (FMG)

Current-year receipts	2,345,000	2,010,000
Conditions met - transferred to revenue	(2,345,000)	(2,010,000)
	-	**-**

This grant was used to promote and support reforms to financial management practices, including the modernisation of budgeting, financial management, accounting, monitoring systems and implementing of the Municipal Finance Management Act.

Expanded Public Works Programme (EPWP)

Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(931,708)	(1,000,000)
	68,292	**-**

The EPWP grant is mainly used for cleaning of the municipal streets and to provide minor form of job creation in the community.

Department of Sports - Library

Current-year receipts	989,000	1,377,000
Conditions met - transferred to revenue	(989,000)	(1,377,000)
	-	**-**

This grant is used to build and improve the communities library facilities.

Integrated National Electrification Programme (INEP)

Current-year receipts	3,000,000	2,000,000
Conditions met - transferred to revenue	(2,114,456)	(2,000,000)
	885,544	**-**

Thsi grant was utilized for the electrification of houses in the municipal jurisdiction.

Energy Efficiency Demand Systems Management Grant (EEDSM)

Current-year receipts	-	3,000,000
Conditions met - transferred to revenue	-	(3,000,000)
	-	**-**

This grant was utilized for the electrification of houses and upgrading of the municipality's electrical infrastructure.

Keimoes Camping & Caravan Park

Current-year receipts	-	162,692
Conditions met - transferred to revenue	-	(162,692)
	-	**-**

This grant was utilized for the development of the Keimoes Resort.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Government grants and subsidies (continued)

Department of Economic Development and Tourism

Current-year receipts	-	130,000
Conditions met - transferred to revenue	-	(130,000)
	-	**-**

This grant was utilized for the upgrading of Information center's infrastructure.

Water Service Infrastructure Grant (WSIG)

Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(4,408,207)	-
	5,591,793	**-**

Conditions still to be met - remain liabilities (see note 20).

This grant was utilized for the upgrading of the municipality's water infrastructure.

29. Public contributions and donations

Office furniture and equipment	-	64,944
Social events	10,000	-
Materials and supplies	4,375	-
Audit fees	5,673,932	-
	5,688,307	**64,944**

Nashua Upington donated office furniture and equipment to the municipality during the financial year.

30. Revenue

Agency services	207,123	1,377,192
Interest received	12,012,926	15,844,749
Rental of facilities and equipment	334,335	265,801
Service charges	106,979,799	90,857,350
Other income	1,442,894	1,074,038
Property rates	17,449,258	12,544,777
Fines	66,316	57,029
Government grants and subsidies	95,600,149	88,296,421
Public contributions and donations	5,688,307	64,944
	239,781,107	**210,382,301**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Agency services	207,123	1,377,192
Interest received	12,012,926	15,844,749
Rental of facilities and equipment	334,335	265,801
Service charges	106,979,799	90,857,350
Other income	1,442,894	1,074,038
	120,977,077	**109,419,130**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

30. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	17,449,258	12,544,777
Transfer revenue		
Fines	66,316	57,029
Government grants and subsidies	95,600,149	88,296,421
Public contributions and donations	5,688,307	64,944
	118,804,030	**100,963,171**

31. Bulk purchases

Electricity	51,172,805	51,890,076
Water	2,971,641	2,740,759
	54,144,446	**54,630,835**

Bulk purchases are the cost of commodities not generated by the municipality, but which the municipality distributes to consumers.

The municipality purchases electricity in bulk from Eskom and water from Kakamas Waterverbruikers Vereniging and then redistributes it to consumers.

32. Contracted services

Cash in transit services	553,531	437,278
Information technology and software services	2,035,549	2,575,730
Consultancy and professional services	7,860,742	1,788,205
Insurance	688,422	875,110
Security services	5,216,686	6,601,001
Refuse removal services	581,183	238,694
	16,936,113	**12,516,018**

33. Debt impairment

Consumer debtors	10,997,104	25,679,608
Long-term debtors	2,288,473	(3,568,538)
	13,285,577	**22,111,070**

IAS 39 states that an impairment of a financial asset is calculated as being the difference between the expected future cash flows and their present (discounted) value. This means another discounting calculation, distinct from any discounting calculations that may have been required to determine fair value at initial recognition.

An impairment calculation is forward-looking and the municipality therefore used the number of days that the particular consumer debtor is still expected to be outstanding based on the best information available at year-end.

34. Depreciation and amortisation

Intangible assets	157,150	167,545
Property, plant and equipment	30,855,709	37,272,967
	31,012,859	**37,440,512**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

35. Employee related costs

Acting allowances	1,509,361	835,346
Basic salaries and wages	70,089,907	62,492,134
Bonuses	5,380,268	4,879,611
Cellphone allowances	222,710	139,165
Housing benefits and allowances	550,086	729,568
Industrial council contributions	39,644	36,090
Leave pay provision charge	791,037	672,623
Long-service awards	7,692	188,766
Medical aid contributions	2,441,172	1,766,843
Nightshift allowances	329,086	294,238
Overtime payments	4,783,938	5,646,154
Pension fund contributions	10,828,096	9,480,244
Performance bonuses	124,778	-
Post employment medical aid interest	-	1,665,200
Post employment service costs	-	1,110,738
Shift allowances	268,392	243,663
Skills development levy (SDL)	894,781	833,041
Standby allowances	2,336,031	2,273,687
Travel allowances	2,697,045	2,876,936
Unemployment insurance fund contributions (UIF)	692,661	654,550
Uniform allowances	-	18,609
Wages: temporary employees	-	99,156
Ward committee members allowances	498,000	274,000
Workmen compensation administration contributions (WCA)	5,974	7,631
Other payroll levies	-	113,143
	104,490,659	**97,331,136**

36. Finance costs

Bank	-	23,710
Environmental rehabilitation	10,971,557	3,354,048
Finance leases	1,060,604	462,463
DBSA Loans	834,744	753,068
Trade and other payables	19,020,378	26,090,848
	31,887,283	**30,684,137**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. General expenses

Advertising	190,425	206,398
Auditors remuneration	3,726,888	1,882,361
Bank charges	745,884	710,968
Cleaning materials	-	64,152
Commission: Sale of pre-paid electricity	90,551	74,873
Community development and training	1,102,960	50,727
Computer expenses	87,000	76,763
Consulting and professional fees	824,127	2,813,148
Consumables and materials	4,801,851	443,091
Departmental charges	1,486,513	3,634,242
Donations	233,456	1,080,283
Entertainment	122,867	65,796
Land surveyor costs	244,863	60,895
Lease rentals on operating leases	2,368	270,354
Licence fees	-	952,577
Motor vehicle expenses	4,604,691	5,469,903
Postage and courier	58,313	32,605
Printing and stationery	611,440	284,903
Protective clothing	356,457	524,545
Refuse removal	102,143	199,920
Small tools and equipment	2,630	4,722
Subscriptions and membership fees	33,702	322,324
Telephone and fax	-	500,869
Training fees	156,826	278,567
Travel and subsistence	4,348,555	5,746,267
Valuation roll expenses	169,414	140,491
Water purification chemicals	1,970,089	1,449,095
	26,074,013	**27,340,839**

38. Grant expenses

CoGSTHA RDP Houses	113,168	748,099
Energy Efficiency Demand Systems Management Grant expenditure	-	114,035
Expanded Public Works Programme expenditure	-	469,520
Financial Management Grant expenditure	-	2,592,115
Indigent Support	11,787,128	11,665,218
Keimoes Camping and Caravan Park	-	31,754
Library Grant expenditure	-	201,656
Municipal Systems Improvement Grant expenditure	-	15,600
Special Projects	42,038	790,319
Other	-	180,099
	11,942,334	**16,808,415**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

39. Impairment of assets

Impairments		
Property, plant and equipment	1,307,533	1,226,247
Due to extreme vandilism of the buildings the condition rating of the buildings decreased above expectations. Because of the extreme differences in the buildings original carying value and the fair value valuation done by an independant valuer (DDP Valuers), management decided to impair the buildings to disclose the buildings at a more realistic fair value.		
Other receivables from non-exchange revenue	-	200,304
The receivable stated as impaired is due to the implementation of the amended IGRAP1, which changed the probability measurement criteria from initial measurement to subsequent measurement. Therefore all traffic fine income are accounted for on the accrual basis, i.e. time when offence occurred, but then the asset is considered for impairment at year end ito GRAP 26. At year end the likelihood of receiving traffic income was assessed to be less than 95% for the year when the fine is issued, therefore the fines' receivable was impaired to state a more accurate recoverable amount to enhance the comparability principal to the framework of the financial statements.		
	1,307,533	**1,426,551**

The main classes of assets affected by impairment losses are:

Property, plant and equipment - Buildings, and Other receivables through non-exchange transaction - Traffic fine receivables

Impairment loss recognised or reversed (cash-generating assets and cash-generating units)

The amount of the impairment loss recognised, is as follows:

Impairment loss recognised (Per class of asset)		
Property, plant and equipment - Buildings	1,307,533	1,226,247
Other receivables from non-exchange revenue - Traffic fine receivable	-	200,304

40. Remuneration of councillors

Mayor	808,603	793,318
Speaker	653,217	635,798
Mayoral Committee Members	710,470	608,541
Councillors	4,413,650	4,002,544
	6,585,940	**6,040,201**

In-kind benefits

The Mayor, Speaker, and Councillors are full-time councillors of the municipality.

The Mayor is provided with secretarial support at the cost of the Council.

Councillor remuneration is in line with the upper limits as per the Government Gazette.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

41. Repairs and maintenance

Buildings	727,539	848,701
Electrical components	1,123,070	1,084,385
Landfill sites	-	2,265
Sewerage	165,996	201,840
Street and storm water drainage	845,486	655,460
Tools and equipment	-	10,294
Water distribution	1,118,896	1,416,578
	3,980,987	**4,219,523**

42. Fair value adjustments

Investment property (Fair value model)	19,000	88,000

43. Auditors' remuneration

Fees	3,726,888	1,882,361

44. Cash generated from operations

Deficit	(64,234,522)	(97,691,399)
Adjustments for:		
Depreciation and amortisation	31,012,859	37,440,512
Gain on sale of assets and liabilities	2,386,885	51,263
Fair value adjustments	(19,000)	(88,000)
Finance costs - Finance leases	1,060,604	462,463
Impairment deficit	1,307,533	1,426,551
Debt impairment	13,285,577	22,111,070
Movements in retirement benefit assets and liabilities	-	(285,321)
Movements in provisions	10,799,928	5,356,642
Changes in working capital:		
Inventories	4,194,229	(1,996,543)
Receivables from exchange transactions	(2,142,703)	14,664,599
Consumer debtors	(13,285,577)	(22,111,070)
Other receivables from non-exchange transactions	(2,779,251)	3,106,110
Payables from exchange transactions	61,759,853	119,023,109
VAT	(2,279,253)	(12,408,551)
Unspent conditional grants and receipts	7,641,851	(163,544)
Consumer deposits	37,642	68,014
	48,746,655	**68,965,905**

45. Accounting Officers' emoluments

Executive

2017

	Emoluments	Other benefits*	Total
Mr. I.G.A. de Waal (Acting)	1,001,040	360,000	1,361,040

46. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

46. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the municipality is very reliant on grants from National Treasury. Funding will be received from National Treasury as long as the municipality comply with all legislation requirements. The collection of outstanding consumer debtor accounts are also a priority for the municipality for the financial year.

47. Events after the reporting date

The municipality is unaware of any events after the reporting date which required disclosure.

48. Unauthorised expenditure

Unauthorised expenditure	395,848,919	283,764,811
Add: Unauthorised expenditure - current year	94,476,115	112,084,108
	490,325,034	**395,848,919**

49. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	42,289,260	11,677,993
Add: Fruitless and wasteful expenditure - current year	19,020,378	30,611,267
	61,309,638	**42,289,260**

50. Irregular expenditure

Opening balance	61,604,987	44,670,603
Add: Irregular Expenditure - current year	-	16,934,384
	61,604,987	**61,604,987**

51. Additional disclosure in terms of Municipal Finance Management Act

Material losses through criminal conduct

Distribution losses - Water	209,388	346,827
Distribution losses - Electricity	12,616,787	7,119,490
	12,826,175	**7,466,317**

Electricity losses for the current year amounted to 13% of total electricity purchased. These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 10%. Non-technical losses, being theft, faults, billing errors account for 3%. The Municipality will work towards improving control over non-technical losses.

A register of distribution losses is available at the municipal offices.

Audit fees

Opening balance	9,896,868	8,145,120
Current year subscription / fee	2,822,022	1,751,748
Amount paid - current year	(5,673,932)	-
	7,044,958	**9,896,868**

VAT

VAT receivable	9,079,552	6,800,299

VAT output payables and VAT input receivables are shown in note 9 and respectivly.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

51. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. N.J. Snyers	1,248	1,642	2,890
Cllr. C.F.P. Bezuidenhout	59,699	61,716	121,415
	60,947	**63,358**	**124,305**

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. M.M. Louw	938	662	1,600
Cllr. N.J. Snyers	356	662	1,018
Cllr. C.F.P. Bezuidenhout	51,496	53,489	104,985
	52,790	**54,813**	**107,603**

No Councillors had arrear consumer accounts as on 30 June 2017.

30 June 2018	Highest outstanding amount	Aging (in days)
Cllr. N.J. Snyers	1,642	150
Cllr. C.F.P. Bezuidenhout	61,716	360
	63,358	**510**

30 June 2017	Highest outstanding amount	Aging (in days)
Cllr. M.M. Louw	938	30
Cllr. N.J. Snyers	662	90
Cllr. C.F.P. Bezuidenhout	53,489	150
	55,089	**270**

52. Contingencies

The municipality has the following Legal cases pending which could result in possible outflow of economic resources.

Wessels & Smith Attorneys Inc has assisted the municipality in the current financial year with their legal procedings.

Nr	Type of case	Description	Parties involved	Commenced	Status	Potential Liability
1	Litigation	Claim: Orange River Flood Damage, Keimoes	HC Turner, CJG Turner & DJ Turner / Kai !Garib Municipality	Prior 2012/13	Pending	664,100
2	Litigation	Claim: Orange River Flood Damage, Keimoes	JG van Niekerk & Van Niekerk Nieuwoudt/ Kai!Garib Municipality	Prior 2012/13	Pending	250,041
3	Litigation	Claim: Tree months salary, medical disability on own request, Keimoes	Me. E. Basson / Kai!Garib Municipality	2014/15	Pending	52,728

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

53. Related parties

Relationships

Accounting Officers	No related parties transactions noted except for remuneration as disclosed in note 35
Joint ventures	No related parties transactions noted
Close family member of key management	No related parties transactions noted
Post employment benefit plan for employees of a related party of a close family member of key management	No related parties transactions noted
Members of key management	Mr. I.G.A. de Waal Mr. J. Krapohl Adv. R. Neethling Mr. J. MacKay

Compensation to accounting officers and other key management

	2018	2017
Councillor allowances	4,254,482	4,060,142
Basic salaries	-	3,438,779
Travel allowances	1,395,082	1,992,569
Telephone allowances	390,637	390,756
	6,040,201	**9,882,246**

Key management information

Class	Remuneration	Number
Mayor	Refer to note 40	1
Speaker	Refer to note 40	1
Councillors	Refer to note 40	18
Municipal Manager	Refer to note 35	1
Section 57 managers	Refer to note 35	3

54. Prior period errors

The correction of the error(s) results in adjustments as follows:

55. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2017

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions	6	39,567,524	(12,587,283)	26,980,241
Receivables from non-exchange transactions	7	19,902,331	(4,599,943)	15,302,388
Property, plant and equipment	12	759,444,057	4,841,597	764,285,654
Payables from exchange transactions	18	(237,514,884)	4,998,559	(232,516,325)
Accumulated surplus		(504,173,321)	7,347,070	(496,826,251)

Statement of finanical performance

2017

	Note	As previously reported	Correction of error	Restated
Interest received	22	(15,866,738)	21,989	(15,844,749)
Service charges	24	(103,423,501)	12,566,151	(90,857,350)
Property rates	26	(17,143,770)	4,598,993	(12,544,777)
Depreciation and amortisation	34	39,093,055	(1,652,543)	37,440,512

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

56. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consists of cash and cash equivalents and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio. This ration is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position. There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Gearing ratio:

	2018	2017
Less: Cash and cash equivalents	(463,661)	(918,801)
Net debt	(398,793,049)	(331,517,025)
Total equity	432,591,727	504,173,321
Total capital	33,798,678	172,656,296

The gearing ratio of the municipality decreased due to the ESKOM liability respectively increasing. Management has entered into a settlement agreement with ESKOM to repay its debt.

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk, fair value interest rate risk, and price risk, credit risk and liquidity risk, but the exposure is limited to the the municipality’s management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

56. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Cash and cash equivalents	463,661	918,801
Receivables from exchange transactions	29,122,944	39,567,524
Receivables from non-exchange transactions	18,081,639	19,902,331

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk.

There has been no change to the municipality's exposure to market risk on the manner in which managed.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Notes to the Annual Financial Statements

56. Risk management (continued)

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

57. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The following deviations occurred during the financial year:

Nr	Date	Order number	Voucher number	Amount	Vendor	Description
DEV001	02/02/2017	26398	15052815	12,782	Truvelo Manufactures (PTY) LTD	Calibration (Service) on Traffic Laser
DEV002	09/08/2017	30112	15054640	54,295	NB Mechanical Sales	Emergency: Transformer was needed as the main tranformer in the electrical network has become faulty
DEV003	0907/2018	00242	15053655	10,779	Orange Nissan	Parts only available at agents
DEV004	30/11/2017	26676		3,843	Orange Nissan	Parts only available at agents
DEV005	12/11/2017	26720	15054911	3,154	Orange Nissan	Parts only available at agents
DEV006	12/011/2017	26721	15054912	2,577	Orange Nissan	Parts only available at agents
DEV007	02/06/2018	26928	15055600	3,240	Mayfair Gearbox	Strip and Repair
DEV008	29/01/2018	68350	15056116	398,000	NB Mechanical Sales	Strip and Repair of Mini Sub 500KVA
DEV009	26/02/2018	68414	15055858	2,752	Orange Nissan	Parts only available at agents

Kai !Garib Local Municipality
Appendix A
June 2018

Schedule of external loans as at 30 June 2018

	Loan Number	Redeemable	Balance at 30 June 2017 Rand	Interest capitalized during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2018 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
1200 0176/6100 0080	1004 98/1	30/06/2023	1,359,310	162,854	-	1,522,164	-	-
1200 1645/6100 1016	1037 23/2	28/02/2019	6,813,162	587,116	-	7,400,278	-	-
1200 1645/6100 1017	1037 23/3	31/08/2015	11,844	1,075	-	12,919	-	-
1200 4799/6100 3256	1370 2/101	30/06/2021	771,757	83,858	-	855,615	-	-
			8,956,073	**834,903**	**-**	**9,790,976**	**-**	**-**
Lease liability								
Nashua - Office equipment			654,530	6,260,718	785,880	6,129,368	5,939,833	-
			654,530	**6,260,718**	**785,880**	**6,129,368**	**5,939,833**	**-**
Total external loans								
Development Bank of South Africa			8,956,073	834,903	-	9,790,976	-	-
Lease liability			654,530	6,260,718	785,880	6,129,368	5,939,833	-
			9,610,603	**7,095,621**	**785,880**	**15,920,344**	**5,939,833**	**-**